

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 SP-02 USIA-06 AID-05 EB-08 NSC-05
TRSE-00 SS-15 STR-07 OMB-01 CEA-01 CIAE-00
COME-00 FRB-03 INR-10 NSAE-00 XMB-02 OPIC-03
LAB-04 SIL-01 PA-01 /087 W
-----047520 170738Z /21

R 161613Z FEB 78
FM AMCONSUL MONTREAL
TO SECSTATE WASHDC 058
AMEMBASSY OTTAWA
AMCONSUL QUEBEC

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E.O. 11652: NA
TAGS: EFIN, CA
SUBJECT: HYDRO-QUEBEC FINANCIAL REQUIREMENTS

REF: MONTREAL 1658 AND OTHERS

1. BEGIN SUMMARY: PLANS OF HYDRO QUEBEC FOR 1978 CALL FOR \$975 MILLION IN ADDITIONAL FINANCING. AVAILABILITY OF \$500 MILLION STANDBY CREDIT AND \$750 MILLION CASH ON HAND PROVIDES CUSHION. FINANCIAL MANAGERS BELIEVE IT IS IMPERATIVE THAT HYDRO RETURN TO US MARKET DURING YEAR WITH PUBLIC ISSUE, BUT THERE IS SOME ANXIETY OVER EFFECT PREMIUM NECESSARY IN US MARKET MIGHT HAVE ON HYDRO QUEBEC'S IMAGE. END SUMMARY.

2. HYDRO QUEBEC OFFICIALS INDICATE THAT BORROWING PROGRAM FOR HYDRO QUEBEC DURING 1978 WILL APPROXIMATE \$975 MILLION. CAPITAL EXPENDITURES FOR 1978 ARE NOW ESTIMATED AT \$2.7 BILLION, OF WHICH \$630 MILLION IS EXPECTED TO BE GENERATED INTERNALLY. ADDITIONAL \$270 MILLION WILL BE OBTAINED FROM DRAWDOWNS OF \$750 MILLION CASH ON HAND AT END OF 1977, WITH INTENT OF LEAVING \$480 MILLION IN BANK AS CUSHION FOR 1979. CONVERSION OF \$750
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MILLION EURODOLLAR TERM LOAN WILL PROVIDE \$825 MILLION, LEAVING BALANCE OF \$975 MILLION TO BE FINANCED. PRESENT PLANS DO NOT INCLUDE USE THIS YEAR OF ANY PORTION OF \$500 MILLION STANDBY CREDIT, WHICH HYDRO VIEWS AS NEST EGG SHOULD OTHER FINANCING PLANS NOT WORK OUT. (SEE TALBE LAST PARAGRAPH).

3. HYDRO OFFICIALS SAY THAT FINANCING DURING 1978 MUST INCLUDE

RETURN TO US MARKET. HYDRO HAD HOPED TO RETURN TO US PUBLIC MARKET LAST YEAR, BUT CHOSE INSTEAD TO FINANCE OVERSEAS WHERE FUNDS WERE AVAILABLE WHICH DID NOT REQUIRE PREMIUM BEING DEMANDED IN US MARKET. NOW, HOWEVER, THEY BELIEVE THAT IT IS IMPERATIVE TO GET HYDRO NAME BACK ON STREET AND WANT TO OBTAIN DOLLARS REQUIRED FOR DEBT SERVICING. FINANCING WILL BE PUBLIC, WILL PROBABLY BE COMBINATION TYPE DESIGNED TO GET BEST POSSIBLE RECEPTION, WITH SHORTENED MATURITIES. PREMIUM CANNOT BE DETERMINED UNTIL TIME OF FINANCING, BUT FEELING NOW IS THAT INTEREST RATE BASED ON CURRENT PRICES WOULD HAVE TO BE AT LEAST 9.75 PERCENT. (HYDRO QUEBEC'S 8.60 PERCENT ISSUE OF 2006 IS NOW PRICED AT 9.72 PERCENT). FROM DISCUSSIONS IT IS APPARENT THAT HYDRO IS CONCERNED ABOUT REPERCUSSIONS
STEMMING FROM ATTENTION THAT PREMIUM AND SPREAD WITH ONTARIO, NOW AT ABOUT 75 BASIS POINTS, WOULD ATTRACT AS RESULT OF PUBLIC ISSUE IN US.

4. WITH REGARD TO RECENT FINANCING OF \$1.2 BILLION, CONSISTING OF \$750 MILLION TERM LOAN AND \$500 MILLION STANDBY, HYDRO REPORTS THAT IT HAD PLAYED WITH IDEA FOR SOME TIME, AS BANKS HAD BEEN PERSISTENT IN ATTEMPTING TO PROMOTE PACKAGE. WHILE HARDLY IDEAL WAY TO FINANCE, COMPANY VIEWED DEAL AS CONSISTENT WITH ITS NEEDS -- GIVEN HEAVY FINANCIAL REQUIREMENTS AND QUEBEC SITUATION -- TO MODIFY FINANCIAL PROGRAMS. APPROACH NOW INCLUDES BRIDGING OPERATIONS TO COVER 7 TO 8 YEAR CONSTRUCTION PROJECTS

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5. THERE HAVE RECENTLY BEEN REPORTS THAT NUMBER OF HYDRO BONDS ARE RETURNING TO QUEBEC MARKET, SUGGESTING NERVOUSNESS ABOUT HOLDING QUEBEC SECURITIES. WHILE CAISSE DU DEPOT AND HYDRO PENSION FUND HAVE AT TIMES SERVED AS MARKET STABILIZER FOR QUEBEC ISSUES, HYDRO SAYS THAT ALMOST NO NON-CANADIAN DOLLAR PAY BONDS HAVE RETURNED TO QUEBEC MARKET. HYDRO BELIEVES REPORTS STEM FROM PRACTICE, DISCONTINUED IN 1976, UNDER WHICH SYNDICATES FOR HYDRO'S CANADIAN ISSUES WERE REQUIRED BY QUEBEC TO PLACE 50 PERCENT OF ISSUES IN PROVINCES OTHER THAN QUEBEC. IN ORDER COMPLY, SYNDICATES OFTEN EXECUTED WHAT AMOUNTED TO TEMPORARY PLACEMENTS, WITH SUBSEQUENT SWAPS RETURNING ISSUES TO QUEBEC.

6. FINANCIAL REQUIREMENTS 1978-HYDRO QUEBEC
(MILLION \$)

CAPITAL EXPENDITURES 2,700

LESS: GENERATED INTERNALLY 630

CASH DRAW DOWN -1 270

TERM LOAN -2 825

AMOUNT LEFT TO FINANCE 975

-1 - CASH ON HAND END 1977 WAS \$750M

-2 - CONVERSION OF \$750M US DOLLAR TERM LOAN.
HARPER

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: CREDIT, LOAN DATA
Control Number: n/a
Copy: SINGLE
Draft Date: 16 feb 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978MONTRE00349
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780073-0513
Format: TEL
From: MONTREAL
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780247/aaaabnxa.tel
Line Count: 123
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 307d47d5-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 78 MONTREAL 1658
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 05 may 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: N/A
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3574080
Secure: OPEN
Status: NATIVE
Subject: HYDRO-QUEBEC FINANCIAL REQUIREMENTS
TAGS: EFIN, CA, HYDRO QUEBEC
To: STATE OTTAWA
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/307d47d5-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014